

**SOUTH CAROLINA
ATTORNEY GENERAL'S OFFICE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 11, 2008

The Honorable Henry D. McMaster
State Attorney General
South Carolina Attorney General's Office
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Attorney General's Office (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2007, in the areas addressed. The Office's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$85,300 – general fund, \$39,100 – earmarked fund, and \$16,200 - federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Office and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$46,700 – general fund, \$34,300 – earmarked fund, and \$16,700 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Code in the Accountant's Comment section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$46,700 – general fund, \$34,300 – earmarked fund, and \$16,700 – federal fund) and ± 10 percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Fund Source Coding in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, and all operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Office to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Office's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Office's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Office's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Office and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Capital Assets Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the Office and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Office had taken corrective action.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the Attorney General and management of the South Carolina Attorney General's Office and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

FUND SOURCE CODING

During our testing of payroll transactions we noted one instance in which the fund source code documented on the Office of Human Resource Employee Profile did not agree to the payroll warrant register. The error occurred because a change was made to an employee's funding source and the change was not reported to the Office of Human Resources.

Section 19-701.05 of the South Carolina Human Resource Regulations states, "As required by 8-11-230 of the South Carolina Code of Laws, Human Resources Information System (HRIS) serves as the central database to maintain human resources data on all employees. To maintain the integrity and completeness of the compensation module of HRIS, all agencies are required to submit appropriate information in a timely manner."

We recommend the Office implement procedures to ensure that fund source changes are reported to the HRIS in a timely manner.

CAPITAL ASSETS CLOSING PACKAGE

During our testing of the capital assets closing package we noted that the current year additions included an intangible asset that did not meet the State's capitalization threshold. The Office reported software purchased during fiscal year 2007 with an assigned value of \$24,668 on its capital assets closing package. The Comptroller General's Closing Procedures Manual, Section 3.9, states intangible assets are defined as those items that lack a physical existence including software. Section 3.9 further specifies that the State's capitalization threshold for intangible assets is \$100,000 and items less than this threshold should not be capitalized.

We recommend the Office implement procedures to ensure that the Capital Assets Closing Package adheres to the Comptroller General's Closing Procedures Manual. We recommend that corrections be incorporated into the subsequent capital assets closing package as necessary.

OBJECT CODE

During our testing of cash disbursements, we noted that one voucher was coded using an incorrect object code. The expenditure was prepared for the purpose of reimbursing an expert witness. The Office recorded the witness's meal reimbursement using expenditure object code 0232 - "Non-State Employee Travel." Since the witness did not incur any overnight travel expenses, the meal should be recorded using expenditure object code 0237 - "Reportable Meals for Non-State Employees."

Section 2.1.6.10 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual defines the expenditure object codes.

We recommend the Office adhere to the STARS policies and procedures manual when assigning object codes.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office for the fiscal year ended June 30, 2006, and dated August 14, 2007. We determined that the Office has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

Title: Fund Source Coding

Notation: During our testing of payroll transactions we noted one instance in which the fund source code documented on the Office of Human Resource Employee Profile did not agree with the payroll warrant register.

Response: The Office of the Attorney General has changed operating procedures to reconcile between the payroll warrant register and the Employee Profile documentation.

Title: Capital Assets Closing Package

Notation: During our testing of the capital assets closing package we noted that the current year additions included an intangible asset that did not meet the State's capitalization threshold.

Response: The Office of the Attorney General will adhere to the State's capitalization threshold found in the Comptroller General's Procedures Manual and correct the oversight in the 2008 capital assets closing package.

Title: Object Code

Notation: During our testing of cash disbursements, we noted that one voucher was coded using an incorrect object code.

Response: The Office of the Attorney General has taken steps to review object code definitions as found in the STARS manual with finance employees.

4 copies of this document were published at an estimated printing cost of \$1.43 each, and a total printing cost of \$5.72. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.